

## **DISCLAIMER**

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## **APPLICATION OF**

**VIRGINIA-AMERICAN WATER COMPANY**

**CASE NO. PUE010312**

**For a general increase in rates**

## **REPORT OF MICHAEL D. THOMAS, HEARING EXAMINER**

**January 23, 2002**

## **HISTORY OF THE CASE**

On May 30, 2001, Virginia-American Water Company (the “Company”) completed an application for an expedited increase in rates for services. The Company proposed that its new rates become effective on June 28, 2001. The proposed rates would produce additional annual operating revenue of \$997,436.00, which represents an increase of approximately 4.23% over the Company’s current rates. The Company proposed that the additional annual operating revenue be allocated among the Company’s three operating districts as follows:

\$181,430.00	increase for the Alexandria District
\$816,006.00	increase for the Hopewell District
\$ 0	increase for the Prince William District

In addition to the rate increase, the Company proposed to revise Rule 14 in its tariff. To preclude an owner of a property with two or more living units from requiring one tenant to maintain the water service for the entire property in his or her name, the Company proposed the following revision:

However, if a premises contains more than one single family unit (e.g. duplex or apartments), then the owner of that premises, or the management company of that premises, shall be held responsible for the water service furnished to that premises until the Company is notified to discontinue service to the premises.

On June 7, 2001, the Division of Energy Regulation (the “Staff”) filed a motion requesting that the Company’s application be treated as an application for a general rate increase. In support, the Staff noted that the Company’s application did not conform to the requirements established by the Commission’s Rules Governing Utility Rate Increase Applications and Annual Informational Filings, 20 VAC 5-200-30. The Staff argued the Company had experienced “a substantial change in circumstances” since its last rate case. In its application, the Company proposed rates that did not include schedules for non-potable water service to industrial customers, which had been approved in the Company’s last rate case. The Staff noted that the Company appeared to be reallocating costs previously allocated to the approved non-potable classes to other customer classes. The Staff

argued this represented a substantial change in circumstances that warranted converting the case to a general rate case.

On June 13, 2001, the Company filed a response stating that all of its facilities constructed in anticipation of non-potable service to a large industrial customer who later decided it could not use non-potable water in its facility, were in-service and providing necessary service, or could be incorporated in the design of the remaining filter replacement work. The Company argued that it did not believe the change from non-potable service would require that the expedited application be converted into a general rate case. Notwithstanding its position, the Company indicated it would not oppose converting the case to a general rate case on the condition that its rates would be allowed to go into effect immediately following notice to the public.

On June 20, 2001, the Commission entered an order docketing the Company's application as a general rate case; requiring the Company to provide notice of its application to the public; requiring the Staff to conduct an investigation of the application; suspending the Company's proposed rates, charges, and tariff revisions for thirty (30) days, subject to refund with interest; assigning the matter to a Hearing Examiner; and scheduling a public hearing on the application for November 14, 2001.

On July 3, 2001, the Hopewell Committee for Fair Water Rates, and on July 17, 2001, the City of Hopewell noted their participation in the case.

The hearing was convened as scheduled on November 14, 2001. Richard D. Gary, Esquire, and Renata Manzo, Esquire, appeared on behalf of the Company. Cliona M. Robb, Esquire, appeared on behalf of the Hopewell Committee for Fair Water Rates. Edward L. Flippen, Esquire, appeared on behalf of the City of Hopewell. Marta B. Curtis, Esquire, and Katharine A. Hart, Esquire, appeared on behalf of the Staff. The Company's proof of notice was accepted into the record. There were no public witnesses. In a preliminary motion, counsel for the Staff moved that the evidentiary hearing be continued to November 28, 2001, to allow the parties to continue to resolve the outstanding issues in the case. The Staff's motion was granted.

By Hearing Examiner's Ruling entered on November 21, 2001, the evidentiary hearing scheduled for November 28, 2001, was continued generally and the parties were provided an additional opportunity to supplement their prefiled testimony.

By Hearing Examiner's Ruling entered on November 26, 2001, the evidentiary hearing was rescheduled to December 19, 2001.

On December 19, 2001, the evidentiary hearing was reconvened. The parties collectively offered for the Commission's consideration, a Stipulation that resolved, or deferred until the Company's next rate case, the outstanding issues in the case. The Stipulation was accepted into the record and is attached hereto as Appendix A. Pursuant to the Stipulation, the parties' testimony and exhibits were marked and accepted into the record without cross-examination.

## **DISCUSSION**

After considering the parties' testimony and exhibits admitted into the record, as well as the parties' Stipulation and Attachment A thereto, I find the Company's \$674,000.00 annual increase in revenues for its Hopewell District is reasonable and should be approved by the Commission. The allocation of the revenue increase among the Company's industrial tariffed class and its domestic tariffed class and the resulting water rates for those classes are not unjust, unreasonable, insufficient, or unjustly discriminatory or preferential, or otherwise in violation of the laws of this Commonwealth.<sup>1</sup>

Accordingly, ***I RECOMMEND*** that the Commission enter an order adopting the findings of this Report, approving the proposed revenue increase, rates, refunds, and proposals and recommendations set forth in the parties' Stipulation and Attachment A thereto.<sup>2</sup>

### **COMMENTS**

The parties are advised that any comments (Section 12.1-31 of the Code of Virginia and 5 VAC 5-20-120 C) to this Report must be filed with the Clerk of the Commission in writing, in an original and fifteen (15) copies, within twenty-one (21) days from the date hereof. The mailing address to which any such filing must be sent is Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document certifying that copies have been mailed or delivered to all counsel of record and any such party not represented by counsel.

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Michael D. Thomas  
Hearing Examiner

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<sup>1</sup>See, Section 56-235 of the Code of Virginia.

<sup>2</sup>The Company's proposed revision to Rule 14 in its tariff was not addressed in the Stipulation. Since the Stipulation sought to resolve all the outstanding issues in the case, it appears the Company no longer desires to proceed with the proposed revision at this time.

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

APPLICATION OF	)	
	)	
VIRGINIA-AMERICAN WATER	)	CASE NO. PUE010312
COMPANY	)	
	)	
For an increase in rates	)	

**STIPULATION**

This Stipulation represents the agreement between the Virginia-American Water Company (“Virginia-American” or “Company”), the Applicant in this general rate case, the City of Hopewell (“City”), the Hopewell Committee for Fair Water Rates (“Hopewell Committee”), and the Staff of the State Corporation Commission (“Staff”) (collectively, “Stipulating Parties”), by counsel, on the application of Virginia-American for an increase in rates:

1. Virginia-American’s Application and all its pre-filed direct, rebuttal, and supplemental testimony and exhibits shall be made a part of the record without cross-examination.
2. The City’s and the Hopewell Committee’s direct and supplemental testimony and exhibits shall be made a part of the record without cross-examination.
3. The Staff’s direct testimony and exhibits shall be made part of the record without cross-examination.
4. For purposes of settlement, this stipulation will result in the following revenue changes detailed below:

Alexandria - annual change of \$0

Hopewell – annual increase of \$674,000

Prince William - annual change of \$0

5. The Stipulating Parties agree that Virginia-American should defer all costs incurred since October 1, 2001, related to the physical security of its water facilities in the Hopewell District, subject to certain conditions. This stipulation does not prejudice the appropriate ratemaking treatment for such deferral, and the ratemaking treatment shall be considered in the Company's next rate proceeding. The conditions of the deferral are as follows:

- A. The deferral will be subject to earnings tests applied in the same manner as has been applied to previous deferrals, with the exception of the use of a 10.0% return on equity ("ROE") benchmark as described in paragraph 6 below. Such earnings tests should include the adjustments necessary to restate the books on a regulatory basis;
- B. The total amount that can be deferred will be the lesser of: a) the estimated rate year amount of \$254,106; or b) the actual unrecovered costs incurred between October 1, 2001, and the starting date of the next rate case's rate year;
- C. If no rate case is filed by January 1, 2004, then recovery of the total deferred amount will be eliminated; and
- D. The Stipulating Parties acknowledge that this treatment of security costs is highly unusual and is the result of unprecedented circumstances arising out of the terrorist attacks of September 11, 2001.

6. The Stipulating Parties agree that, for purposes of the Company's future earnings tests, a 10.0% ROE benchmark will be utilized for determining overearnings and potential regulatory asset write-offs for the 2001 earnings test and will continue until such time as the

authorized ROE range changes. This 10.0% benchmark is in lieu of the 10.25% bottom of the 10.25-11.25% ROE range proposed in this case.

7. The Stipulating Parties agree that, for purposes of determining the refund and for designing permanent rates to reflect the increase in the Hopewell District, the Company shall allocate the annual increase in the following manner: 75% to the industrial tariffed class and 25% to the domestic tariffed class. Specifically, the above-referenced revenue requirement of \$674,000 should be allocated as \$505,500 to the industrial tariffed class and \$168,500 to the domestic tariffed class.

8. In the Alexandria and Hopewell Districts, the Stipulating Parties agree that the Company shall refund, with appropriate interest, any revenue collected from the payment of interim rates from July 20, 2001, to the date that permanent rates are placed in effect to the extent that such revenues exceed those that would have been collected from the permanent rates.

9. The Stipulating Parties agree that the Company shall submit a cost of service study for potable and non-potable service to the Commission as part of its next rate case filed before the Commission.

10. The Stipulating Companies agree that the Company shall file tariffs prepared in conformance with this Stipulation with the Commission for its review and approval.

11. The Company and Staff adopt and agree to the reasonableness of the adjustments proposed by Staff, subject to the modifications detailed in the following subsections and set forth in Attachment A. Although the Hopewell Committee and City do not adopt such adjustments and modifications, they do not oppose them.

- A. Staff's payroll-related adjustments should be amended to incorporate corrected payroll distributions and modified interdistrict allocation of payroll-related costs which were provided by Company.
- B. Staff's revenue adjustments should be amended to incorporate corrected billing determinant information which was provided by Company.
- C. Staff's jurisdictional allocation of fire hydrant costs in Hopewell should be modified such that certain federal facilities are excluded from the allocation based on an average daily domestic flow.
- D. Company's adjustment to insurance other than group expense should be accepted in lieu of Staff's corresponding adjustment.
- E. An additional \$68,615 reduction in Hopewell's revenue requirement is acceptable.
- F. An approximate rate year level of security costs should be added to Alexandria's and Prince William's revenue requirements. No security costs should be deferred in these Districts.
- G. Staff's jurisdictional per books revenue in the Prince William District should be amended to reflect a change from \$5,004,760 to \$4,910,389.

Virginia-American, the City, the Hopewell Committee, and the Staff agree that this Stipulation represents a compromise for the purposes of settlement in this case only and shall not be regarded as a precedent with respect to any ratemaking or any other principle in any future

case. None of the parties to this Stipulation necessarily agree or disagree with the treatment of any particular item, any procedure followed, or the resolution of any particular issue in agreeing to this Stipulation other than as specified herein, except that the parties agree that the resolution of the issues herein, taken as a whole, and the disposition of all other matters set forth in the Stipulation are in the public interest.

This Stipulation is conditioned on and subject to acceptance by the Commission and is non-severable and of no force or effect and may not be used for any other purpose unless accepted in its entirety by the Commission, except that this paragraph shall remain in effect in any event.

Respectfully submitted this 18<sup>th</sup> day of December 2001.

VIRGINIA-AMERICAN WATER  
COMPANY



**Virginia-American Water Company**  
**Case No. PUE010312**  
**Reconciliation of Staff Testimony and Stipulation Revenue Requirements**

	Alexandria	Hopewell	Prince William	Total Company
Staff Testimony	(144,507)	642,180	(297,121)	200,552
Change in Revenue Adjustments Due to Bill Determinants	56,463	25,633	37,489	119,585
Change in Jurisdictionalization of Revenue	0	0	94,371	94,371
Accept Company's Adjustment to Insurance Other	17,471	22,657	(5,787)	34,341
Change in Fire Service Jurisdictional Allocation	0	29,232	0	29,232
Payroll Changes - Per Book and Pro Forma Expense	18,491	30,080	15,893	64,464
Payroll-Related Reallocation (Incl. Network Administrator Change to Per Book Level)	(44,367)	(9,331)	71,844	18,146
Miscellaneous Additional Impact of Above Changes (cash working capital, for example)	435	2,164	1,410	4,009
Agreed Upon Additional Reduction in Hopewell	0	(68,615)	0	
Subtotal Before Security Costs	<u>(96,014)</u>	<u>674,000</u>	<u>(81,901)</u>	<u>496,085</u>
Security Adjustment (Per Staff Jurisdictional Factors)	<u>164,458</u>	<u>0</u>	<u>49,031</u>	<u>213,489</u>
Subtotal	68,444	674,000	(32,870)	709,574
<b>Stipulation Revenue Requirements</b>				
- Limited to \$0 in Alexandria and Prince William Due to ROE Range Restriction	<u>0</u>	<u>674,000</u>	<u>0</u>	<u>674,000</u>